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Judge Newman (00:04):

Okay. The first argued case this morning is number 161945 Raytheon Company against Indigo Systems Corporation. Mr. Cunningham.

Michael Cunningham (00:15):

Thank you, your honor.

Michael Cunningham (00:22):

May it please the court. Your honor, it is at trial Raytheon pursued trade secrets. The jury found four of them to be secrets. The jury did not find misappropriation. Given the weight and the evidence given at trial, no reasonable juror could have concluded that misappropriation did not occur for the Ford trade secrets that were found to be secret.

Judge Newman (00:45):

What is your view of the basis for the verdict that the trade secrets, although they were trade secrets, so it would treat them that way, were not used in negotiations or that they were not misappropriated. Well, they said they found they were misappropriated or they found they were trade secrets.

Michael Cunningham (01:05):

Yes, your honor. They found they were trade secrets, but when they asked the second question, was there misappropriation, on the four which they found they were secret, they did not find misappropriation.

Judge Newman (01:14):

They found they were not used or that they were not wrongly taken?

Michael Cunningham (01:18):

Well, the question on the jury charge was misappropriation, your honor. It was, if you answered no to question two, identify which alleged trade secrets are in fact secrets. I'm sorry. That was the one. Did Raytheon prove by preponderance of evidence that Indigo misappropriated one or more of the secrets? That was the question on the charge. The jury was asked: Do you find any secret? They found yes to four. The next question was: do you find misappropriation? Misappropriation, under KATUSA, the relevant law, is use or disclosure based on improper means.

Judge Chen (01:53):

Before we can figure out whether there's misappropriation of a trade secret, first have to figure out what is the trade secret? What is the scope of the trade secret?

Michael Cunningham (02:02):

Absolutely, your honor.

Judge Chen (02:02):

There wasn't any instruction to the jury saying trade secret number 14, here's the definition of it.

Michael Cunningham (02:11):

Absolutely your honor. I believe that was on–that was the burden of Indigo. They did not object to the definition or the description—

Judge Dyk (02:16):

Burden? Their burden?

Michael Cunningham (02:16):

I'm sorry.

Judge Dyk (02:18):

You're the plaintiff?

Michael Cunningham (02:20):

Yes.

Judge Dyk (02:20):

It's their burden to identify what the trade secret is?

Michael Cunningham (02:22):

No, your honor, we assigned the trade secrets. The jury charge actually defined the trade secret. It said method—and number 14 is the first one I'm talking about—method and use—

Judge Dyk (02:31):

Why isn't it your burden to establish what the trade secret is?

Michael Cunningham (02:35):

Well your honor, I believe we did, both in the jury charge and the evidence at trial. We identified what the trade secret was—

Judge Dyk (02:31):

How do we know what the trade secret is?

Michael Cunningham (02:44):

Between the testimony from Raytheon's witnesses and Indigo's witnesses, the definition of trade secret 14 was agreed upon. It was a series of cascading bakes. It was the method and use of a sequential vacuum bake. Indigo would like to say that it was a specific recipe, a time, a temperature ,and a pressure—

Judge Dyk (03:02):

If that's the definition of the trade secret, that was well known.

Michael Cunningham (03:05):

I'm sorry, your honor?

Judge Dyk (03:05):

If that's the definition of the trade secret, that was well known. They have a cascading bake.

Michael Cunningham (03:13):

Actually your honor, the evidence of trial found that the trade secret, the use of a sequential vacuum bake or a cascading bake as practiced by Raytheon and Indigo was not in the public domain and was not well known—

Judge Dyk (03:23):

That's a different question. You're changing the definition of the trade secret. The question is a cascading bake, the general concept, well-known and yes, it was. That can't have been the trade secret is that the jury found to exist. It had to be the cascading bake based on certain particular parameters. Right?

Michael Cunningham (03:47):

Your honor, when Steve Black, Raytheon's expert, witness was asked, what—

Judge Dyk (03:50):

No, try to answer my question.

Michael Cunningham (03:51):

Certainly. The evidence at trial from both Raytheon and Indigo witnesses was that trade secret 14 was defined as a series of cascading bakes. That was the definition—

Judge Dyk (04:01):

Any series of cascading bakes?

Michael Cunningham (04:03):

Yes, your honor. That was the definition that was given. That was the description that was given to the jury by both witnesses from Raytheon and Indigo. That is the definition of trade secret 14. Indigo—

Judge Chen (04:14):

There's no testimony anywhere in the record where there was a more specific conception of the trade secret number 14, other than the basic concept of doing the sequential vacuum bake? Is that what you're telling me?

Michael Cunningham (04:26):

No, your honor. The testimony at trial was the trade secret was a series of cascading or sequential vacuum bakes that were product dependent. The time, temperature, and pressure were based on the products. The exact recipes for any cascading bake were product dependent, both witnesses from Raytheon and Indigo agreed that a cascading bake or a sequential vacuum bake as practice was not in public domain, was not known, and that the recipes were product dependent.

Judge Dyk (04:55):

You keep saying "as practiced." And it seems to me you're changing the definition of the trade secret even as we talk about it. Is it the general concept of the cascading bake or is it the peculiar circumstances here?

Michael Cunningham (05:09):

It is the concept of a sequential vacuum bake, the concept of vacuum baking—

Judge Dyk (05:14):

The general concept, regardless of the actual parameters?

Michael Cunningham (05:18):

Yes. Even as Indigo's witness testified that the cast— a series of cascading bakes is not in the public domain.

Judge Dyk (05:25):

Who testified that the general concept was not in the public domain? Could you show me that?

Michael Cunningham (05:30):

Mr. Canal. I believe it is—I'm sorry, your honor—let me pull up the record site for you, 'cause that's more important. App site 9805 to 06. And I will wait from the record.

Judge (05:55):

[Inaudible].

Michael Cunningham (05:55):

Oh, your honor. I do not know the volume.

Judge Dyk (05:59):

You know you're supposed to bring the appendix and the briefs and things like that to oral argument with you.

Judge Newman (06:03):

[Inaudible].

Michael Cunningham (06:06):

I have the cite your honor, I just don't—I have all the record excerpts that I was—that I needed to cite from. I have the briefs. I apologize for not having the appendix—which volume it's from. It is from appendix 98, page 9805 and 06. Indigo's expert was—

Judge Dyk (06:23):

Wait.

Michael Cunningham (06:23):

I'm sorry?

Judge Dyk (06:23):

Wait.

Michael Cunningham (06:23):

Certainly.

Judge Dyk (06:35):

Okay. It seems to be in volume five.

Michael Cunningham (06:39):

My apologies.

Judge Dyk (06:40):

95—what is it?

Michael Cunningham (06:41):

9805 and 06.

Judge Dyk (06:50):

Okay.

Michael Cunningham (06:52):

Indigo's expert witness was asked. Would you agree with me—

Judge Dyk (06:55):

What line is this on?

Michael Cunningham (06:56):

Starting on line 25 on 9805 going to line 5 on 9806. Would you agree with me? I believe you would agree with me that for trade secret number 14, the piece-part vacuum bake process, that there are no public domain documents discussing the concept of a sequential bake as opposed to a final piece-part bake. Answer: "Yeah. That—I think that's correct." This was Indigo's witness, their expert, who admitted that the trade secret 14, the concept of a sequential—

Judge Dyk (07:30):

Yeah, but that is related to the piece-part vacuum-based process. It's talking about an individual process. Where does somebody say that the general concept of a sequential bake is a trade secret?

Michael Cunningham (07:43):

Right there at—right there on line three, your honor, discussing the concept of a—

Judge Dyk (07:48):

I don't read it that way. Is there any other clause?

Michael Cunningham (07:50):

Your honor, that's the most definite and direct citation in the record? Where—

Judge Chen (07:54):

I guess another way of looking at this is, the question isn't whether you can point to some testimony in somewhere in the record that defines the trade secret in a way you like. A more relevant question is, was there testimony in the record that arguably defines the trade secret in a much narrower way, in the way the other side likes, that would be reasonable for a reasonable jury to accept as the proper conception of your trade secret? And if the answer to that is yes, then I think we're done.

Michael Cunningham (08:32):

I would agree with you, your honor, but there is not. There is no citation. There is no evidence in the record at all, where the definition of trade secret 14 was more narrowly defined. The concept of piece-part

vacuum baking with recipes as being product dependent was discussed, but never once, and in fact, Raytheon was asked on cross examination. Is it two steps, five steps, 50 steps? And the answer was, it is a cascading series of bakes that is product dependent. At no point during the trial ever was trade secret 14 given a more specific or narrow definition by any witness or document. Indigo did not object to the jury charge as drafted. Indigo did not request an instruction to the jury that provided a more specific definition of trade secret 14. The witnesses agreed that the trade secret was a cascading series of bakes.

Judge Newman (09:24):

Let me take you back to the path that I was trying to understand.

Michael Cunningham (09:29):

Yes.

Judge Newman (09:29):

That is to accept that at least for the four items that the jury found were trade secrets. Nonetheless, they found no misappropriation. And that was the inquiry there that seems to me to be uncertain. And again, was there no misappropriation because there was evidence that this information, although it was trade secret, was not used, not embodied in their product?

Michael Cunningham (10:00):

Well, your honor, at least with respect to trade secret 14, Indigo admitted to practicing the exact same trade secret as sequential vacuum bake. They admitted it. I believe the jury errored on not finding misappropriation given the admission by Indigo that they used it. There was admissions by Farhad Mirbod, one of the packaging engineers from Indigo, also from Indigo's expert, Mr. Jonathan Canal. He admitted, they both admitted, that Indigo practices a piece-part sequential vacuum bake. Given that testimony, and it was not contradicted. It was against the evidence. And no reasonable juror could conclude no misappropriation—

Judge Newman (10:40):

That's what I'm trying to understand.

Michael Cunningham (10:42):

Sure.

Judge Newman (10:42):

Nonetheless, that was their verdict.

Michael Cunningham (10:44):

That was their verdict, but that's the, in our opinion, that is what the appeal is based on. That is no reasonable juror could have concluded that given the admissions by Indigo that they practice the trade secret. On appeal. Indigo has—

Judge Dyk (10:58):

The problem is there's plenty of evidence in this record with the general concept of a cascading bake was well-known, right?

Michael Cunningham (11:04):

There is plenty of evidence in the record that vacuum baking was well known. There was no evidence in the record that a sequential vacuum baking process is, and their expert admitted, that the concept of a

sequential vacuum piece-part bake is not in the public domain. And regardless—

Judge Dyk (11:22):

Where?

Michael Cunningham (11:22):

I'm sorry.

Judge Dyk (11:24):

Where?

Michael Cunningham (11:24):

What I just read for you, from app 9505 to 06, your honor. Mr. Canal admitted that the concept is not in public domain and the jury found that it was a secret.

Michael Cunningham (11:35):

It was defined on the jury charge as a method and use of sequential vacuum bake. The testimony at trial was that the trade secret was the use of sequential vacuum baking. It was never defined, Judge Chen, as a specific, it must be three stages, four stages, five stages, must be this temperature, must be this pressure. It was never defined that specifically. It was always defined as a series of vacuum bakes that are product dependent. The jury found it to be a secret based in part because everyone agreed it was not in the public domain. Indigo admitted to using the trade secret, Judge Newman. It was that it was no reasonable juror could conclude no misappropriation given the admission. That is what the appeal is about, is that with the testimony and with the admissions that are uncontroverted, no reasonable juror could have concluded no misappropriation. Once they concluded there was a secret that's with respect to trade secret 14, your honor. I see I'm on my rebuttal time—

Judge Newman (12:39):

We'll save your rebuttal time. Let's hear from the other side.

Joseph Palmore (12:50):

Thank you, your honor. And may it please the court. I'm Joseph Palmore here on behalf of Indigo FLIR. There was ample evidence supporting the jury verdict of no misappropriation in this case. Raytheon is effectively reprising its jury argument. It points to evidence in its favor and asked for inferences in its favor and says that a finding of misappropriation could be made based on that evidence.

Judge Dyk (13:12):

I thought there was a lot of evidence in the record that the general notion of a cascading bake was in the public domain. Is that true?

Joseph Palmore (13:19):

Absolutely. Your honor. And and—

Judge Dyk (13:20):

Why don't you show us where that is?

Joseph Palmore (13:21):

Sure.

Joseph Palmore (13:22):

So my colleague on the other side talked about our expert, Mr. Canal. If you look at volume five of the appendix.

Judge Dyk:

Yeah.

Joseph Palmore:

Page 9727, Mr. Canal has asked about this very concept and explains that it is public record. I'll give you a—

Judge Dyk (13:43):

What line?

Joseph Palmore (13:43):

Um, starting at page nine. He's talking about his time—

Judge Dyk (13:48):

Nine?

Joseph Palmore (13:48):

Line nine. I'm sorry.

Judge Dyk (13:49):

Line nine.

Joseph Palmore (13:49):

Line nine. He's talking about his prior employment before the relevant period at a company called the ICC and says, "'Let's talk about that period. Did you have any experience with a sequential vacuum bake?" "Yes, absolutely." "And what was that?" "Well, we did it all the time. We had piece-part ovens. We had ovens that were used for assembly—sub-assembly baking, and then the final baking was done on the vacuum system while you're actively pumping on the door." And then the exchange goes on. And if you look over on the opposing page 9728, line 10. "So, you know, it's piece-part baking and final baking. I think it is well known. The intermediate stuff is just piece, part baking of the part that's never been made before. So to me, it's a distinction without a difference." All of that testimony shows that the concept ah of piece-part baking and self-assembly baking was well-known. All of that testimony of course, has to be—

Judge Newman (14:43):

So was the position in defense that all of these procedures were independently developed or adjusted? They were not protectable and therefore were properly transferred.

Joseph Palmore (14:59):

Judge Newman to the extent they were protectable—it was the recipes that were protectable—the specifics of the process: time, temperature, pressure, and the evidence—

Judge Dyk (15:09):

The specifics weren't misappropriated?

Joseph Palmore (15:09):

And the specifics were not misappropriated. To be sure, FLIR used piece-part baking. Everyone in this industry does when manufacturing—

Judge Newman (15:18):

Let me go back to the question, what is the position that all of this was independently developed—

Joseph Palmore:

Absolutely, Your Honor.

Judge Newman:

—or was it that it was there was a matter of entitlement because of either reverse engineering or it had been published.

Joseph Palmore (15:32):

It was all, the trade secret as properly understood and as argued to the jury was not used, was not acquired. The specific times and temperatures, the specifics of the process were independently developed and I can point you to that that evidence—

Judge Newman (15:47):

When you say was not acquired, it was independently developed? This is what I'm trying to understand as to—

Joseph Palmore (15:50):

Was, was not acquired.

Judge Newman (15:50):

Who was behind all of this.

Joseph Palmore (15:51):

I understand your honor. It was not acquired. And then it, it wasn't independently developed in the sense of they ended up at the same place through independent development. The processes were actually dramatically different. And again, Mr. Canal's testimony, this is at 9730, which must be accepted as true. He talks about the dramatic differences between the two processes in terms of time, temperature, pressure, and that evidence, again, I think by itself provided a basis for a reasonable jury to conclude that there was no acquisition because they could look at the dramatic differences between the processes and make that reasonable inference. And of course, on this standard of review, that's the question. What could a reasonable jury do? This was a 17-day trial. There were more than 30 witnesses. There were thousands of pages of documents as the court knows from the volume of the joint appendix. The jury was quite attentive. The jury said some of these things were trade secrets. Most of them weren't, but then you said none of them were misappropriated. To overturn that verdict for a plaintiff, an unsuccessful plaintiff to overturn that verdict, it has to show that the evidence in its favor was so overwhelming that any reasonable jury would have been compelled to accept it and even crediting all the evidence on the other side, even giving FLIR the benefit of all available inferences. On the other side—

Judge Chen (17:14):

Raytheon's counsel just said a few moments ago that the jury was charged with a particular understanding of trade secret 14. That sounded like a very basic conceptual definition.

Joseph Palmore (17:27):

It was, your honor, if you look at the verdict form, it was simply a list. Three or four words per; there was no, there was no jury charge in terms of “Here’s the definition of the trade secret.” And I think that’s key here because, as the court pointed out, it’s plaintiffs, it’s the owner of the punitive trade secret that has the obligation to define it under California law. That’s their obligation because otherwise you can’t put on a defense if you don’t know what’s being claimed.

Judge Chen (17:52):

So are you saying what happened here was a trial where there was a lot of talk about trade secret, and then both sides had their different competing understandings of the trade secret was, and then it was left to the jury to try to draw from the competing stories, what was the trade secret and then figure out whether that was misappropriated?

Joseph Palmore (18:13):

Well, your honor, that’s the–I think one could certainly get that impression now based on how Raytheon has briefed the case. At the jury trial itself we think it quite clear that the trade secret 14 that was claimed was the specific recipes—the times—the temperatures.

Judge Dyk (18:29):

And the closing argument to the jury. You mean?

Joseph Palmore (18:32):

There was referenced by FLIR’s counsel to that aspect of the trade secret and the closing arguments—

Judge Dyk (18:37):

Well I think what we’re struggling for is to, to, to find out how much, what the jury thought the trade secret was. So what the trade secret was argued to be?

Joseph Palmore (18:45):

Right.

Judge Dyk (18:46):

There was no oral charge defining the trade secrets. The jury form doesn’t really define it. The question is, did they define in their argument to the jury?

Joseph Palmore (19:00):

Not in the closing argument, Your Honor, but I think there are two key points to keep in mind here. One is that to the extent that there is ambiguity or uncertainty about the scope of the trade secret, that doesn’t mean that Raytheon wins. That means that Raytheon loses. The MAI systems case from the Ninth Circuit that we cite in our brief holds that when the plaintiff has failed to discharge its California law duty to refine the trade secret with specificity, no judgment can be entered on misappropriation because you can’t figure out what has or hasn’t been misappropriated if, if the plaintiff hasn’t fulfilled its obligation to define the trade secret. So to the extent that there’s confusion about what the trade secret was, that means Raytheon loses. It certainly doesn’t mean they can overturn the jury verdict.

Judge Newman (19:43):

[**Inaudible**] A lengthy trial, enumerated trade secrets, and you are saying that nobody said what a trade secret is?

Joseph Palmore (19:52):

Not in the jury charge, but your honor, Raytheon's counsel and witnesses did—

Judge Newman (19:56):

I'm not asking about the jury. you're answering a different question, which is a matter of concern. My question is, was, was the jury throughout all of this trial, which dealt with trade secrets—you're telling us they were never told what a trade secret it?

Joseph Palmore (20:15):

No, your honor. They, to the contrary, they were repeatedly told by Raytheon's counsel and Raytheon's witnesses that the trade secret was the specifics—was the recipes. And I'm happy to point to that, that testimony that we cite in our brief. Raytheon's expert at 10390 says, "The particular details of this trade secret are the processing requirements, including time and temperatures for each material type that is necessary to ensure maximum vacuum life." Their own witness, Black, this is at 7373, he's being examined by Raytheon's counsel. Raytheon's counsel reads something from a document that refers to the FLIR document that refers to "vacuum degassing of sub-assemblies is required to maintain vacuum life requirements. In general, you want to vacuum bake the highest temperature possible for the longest amount of time tolerable and ask, 'Is that one of our trade secrets.'" Black, Raytheon's witness says, "I think it's actually reasonably well-known. It's just, if you want to clean this stuff up—the hotter you get it—the longer you do it." "That was well known," he says. And of course—

Judge Newman (21:26):

[**Inaudible**] that you need to clean it, but not the detail of how they achieved it.

Joseph Palmore (21:30):

Correct. Because then he goes on to say, "And of course you're bounded by what the part can stand." And that's how you get into the trade secret here. What the part can stand—temperature, time, pressure. Mr. Sharp, who is the employee who Raytheon says disclosed, brought the trade secret with him from Raytheon is being examined by Raytheon's counsel. And counsel says, "In fact, you acknowledged that those recipes—" This is, I'm sorry, 6816. "You acknowledged that those recipes are Raytheon's trade secrets. Don't you, sir? Mr. Sharp, the specific time and tolerance associated with them." "Yes." And counsel for Raytheon says, "Sure. And I'm talking about the specifics. I'm not talking about the general recipe." So there were, there was repeated testimony and statements by Raytheon's counsel that the trade secret 14 was the specific recipe—

Judge Chen (22:23):

What [**inaudible**] do you have for that, about Raytheon's counsel?

Joseph Palmore (22:23):

That last one?

Judge Chen (22:26):

Yeah.

Joseph Palmore (22:26):

Uh, that was 6816, your honor.

Joseph Palmore (22:29):

So there were repeated statements by Raytheon witnesses, Raytheon's counsel, that the trade secret was

the specific recipes. And Mr. Sharp testified that he developed the recipes with the help of vendors. That is at 6992 in consultation with the part suppliers. His own notes show that they were—and this is at 11230 and 11246 through 47. He talks about using trial and error consulting with vendors, consulting with textbooks, to get the specifics on the temperatures and the specifics of the process. There was ample evidence that the jury could have relied on and apparently did rely on, after this lengthy jury trial, to find that there was no misappropriation of trade secret 14.

Judge Chen (23:17):

I think the other side pointed that JA9805-06 this morning out of what we now know is volume five.

Joseph Palmore (23:24):

Right. That was that was from the expert the Indigo expert [**inaudible**]. And I think Judge Dyk was exactly right, that he was still talking there about the specifics because his testimony is what I started off reading at 9727 through 9728, where he talks about this idea of sub-assembly sequential was something that was well known that he himself had done at a prior company. That's the same witness and the jury easily could have relied on that. Counsel didn't talk about trade secret 30, but the analysis is effectively the same. Their theory there was that the trade secret came over with a former Raytheon employee Magoon. They never called Magoon to testify. And Mr. Schweikert, who was an Indigo employee who had never worked at Raytheon, testified that he developed that process on his own and he talked about all the experiments he did. All that evidence has to be accepted as true and that establishes that there was no misappropriation. In my time remaining, if I could, I'd like to, if, unless there are further questions on the main appeal I'd like to shift to our cross appeal.

Judge Newman (24:32):

Okay. [**Inaudible**]

Joseph Palmore (24:33):

Okay.

Judge Newman (24:34):

You can turn to your cross appeal.

Joseph Palmore (24:35):

Sure, Your Honor. The district court committed an error of law by failing to appreciate that a choice of law determination is a decision on the merits for purposes of Texas law—

Judge Dyk (24:48):

Well it can be, but the question is whether the choice of law decision here defeated the claim. And I'm—I don't see in your brief that you say that present difference between the claim under Texas law or California law. In fact, the extent that there's any difference I gather California law was more favorable.

Joseph Palmore (25:08):

Well, there certainly is a difference on attorney's fees, Judge Dyk.

Judge Dyk (25:11):

No, no. But put that aside. I'm not playing in determining, in determining whether there was a prevailing party here. By using, by getting a decision to California applied as opposed to Texas law—that didn't feed any claims did it?

Joseph Palmore (25:30):

Well, it defeated a Texas claim, your honor. And I think that the Texas courts follow a fairly formalistic approach to this.

Judge Dyk (25:36):

Okay, but the Texas claim on the [**inaudible**] is no different from the California claim, or at least it's no more, it's no more favorable for that, right?

Joseph Palmore (25:44):

Well, it is, it is different on attorney's fees, and it is different in the sense of it is under a different body of law. There are cases from Texas, for instance, when a party proceeds to trial on a contract claim, even if—though the factual basis is the same as the TTLA claim at—the TTLA claim was voluntarily dismissed. There would still—or was—was non-voluntarily dismissed earlier. There would still be an award of fees because it's a claim-specific analysis. And the court here—

Judge Chen (26:17):

And was it your position all along that Texas law should apply to the trade secret claim?

Joseph Palmore (26:21):

No, to the contrary, Your Honor. Our position all along was that California law applied. We repeatedly said that, and nonetheless, Raytheon clung to both claims for years and years through at least five years of litigation. When it came up to this court, the last time, when this court kind of knocked the legs out from under the only basis for denying us fees under the TTLA, when it went back on remand, all of a sudden Raytheon agreed that, of course, California law applies. We're going to get rid of this.

Judge Chen (26:55):

Well, how much fees are you actually looking for. I mean, it seems like the, you know, where the choice of law was still unresolved. That's the basic problem and of the trade secret case was running forward and was going to run forward either way. And ultimately, you know, when the facts were on the ground, materialized, we would know it's either California or Texas. So, it's not clear to me, even if you were to get fees under the TTLA, just what kind of fees you would deserve.

Joseph Palmore (27:28):

Well, Judge Chen, we never got to that point because the judge—

Judge Chen (27:32):

Right, so I'm asking you now, what is it that you're looking for?

Joseph Palmore (27:34):

Well, it would be, there might be I—

Judge Chen (27:37):

[**Inaudible**]

Joseph Palmore (27:37):

I can't—I can't give you an answer today because there was no, that question was never briefed. The record was never developed on, for instance, was there separate work required?

Judge Dyk (27:47):

You want to collect the cost of arguing the California law apply rather than Texas law.

Joseph Palmore (27:51):

Well, that would be one possible way of doing it. Or you might split it 50-50, given they were proceeding under both.

Judge Chen (27:56):

But did you file a motion that California law should apply? Not Texas law?

Joseph Palmore (28:00):

Well, no, we never, we never filed a motion. That was our position all along. And we would have had to file a motion before trial. Summary judgment was granted—

Judge Dyk (28:08):

Where are the costs?

Joseph Palmore (28:08):

Pardon me?

Judge Dyk (28:10):

Where are the costs?

Joseph Palmore (28:12):

Well, the costs—the costs are in the—having to litigate both these claims together. So —this is all, these are all questions for the district court on remand. If we get a remand before in its discretion—

Judge Chen (28:24):

Right, help us, help us understand the logic of what's going on here, because I—at the moment, I don't see any Delta in, in having additional legal cost burden of, of these specific Texas-based cause of action versus the California cause of action. When they—it was the same basic cause of action that was being litigated.

Joseph Palmore (28:47):

Right. Your Honor, as far as entitlement to fees, I don't think that's the relevant question under Texas law. So for instance, if you go to trial on the contract claim—

Judge Chen (28:54):

I understand.

Judge Chen (28:55):

I'm just trying to understand where's the Delta?

Joseph Palmore (28:56):

Right? Well, there may, there may, there, there could have been, there was legal research on these, on these issues. There was legal research on venue when the case was first filed in Texas, despite all the relationships with Texas with California.

Judge Chen (29:06):

But you never filed a motion on the choice of law.

Joseph Palmore (29:08):

No, we didn't because we got summary judgment on a statute of limitation. So it was a different—it was a different basis. And then when it came back down from this court, then that's when the parties were proceeding toward trial, that issue would have been teed up. But all of a sudden, they then withdrew the claim. But this is, again, this would all be within the discretion of the district court. The district court could look at, "Well, I see you are having to litigate both of these together. They're very similar claims. So I'm gonna give only a certain percentage."

Judge (29:39):

Why any percentage?

Joseph Palmore (29:39):

Because there may have been specific work done. And we were put to the test of defending against the Texas law claim for five years.

Judge Dyk (29:49):

[**Inaudible**] Developed was equally useful for Texas and California law. Why should you get any fees with respect to the development of that evidence?

Joseph Palmore (29:58):

Well, again, Your Honor, that would be a question for the district court on remand and the exercise of its discretion.

Judge Dyk (30:03):

Answer my question is what is the basis for getting any legal fees for evidence development when you've had to develop the same evidence no matter which law applies?

Joseph Palmore (30:14):

Well, I mean, you could flip that around and said, we were, we had to, if you can't segregate it, then we're entitled to fees, and that is the law in some states. But again, I think these are all questions for the broad discretion of the district court. The district court very well might not say you get all of it. You—maybe you get a percentage. Maybe the district court would require us to show what specific work did you have to do because of the filing of the suit in, in Texas and the venue in—

Judge Newman (30:39):

The district court already said no.

Joseph Palmore (30:40):

The district court said no at the threshold, but he never got to these questions that we're talking about now. Those would be remand questions. The district court made a legal error in concluding and failing to appreciate that the choice of law determination is a decision on the merits and a voluntary withdrawal of a claim in order to avoid that decision can and does trigger fees under Texas law.

Judge Chen (31:03):

But there was no choice of law motion on the, on the books?

Joseph Palmore (31:05):

There was no motion, but the issue was *Peyton*, the issue lurked, and the issue was going to have to be decided. And there's no requirement that there'd be a pending motion.

Judge Dyk (31:13):

Supposed there were an issue about which version of the statute apply, whether the statute was amended, and the question was whether the original statute applied or the amended statute applied, but it didn't make any difference which applied. Are you suggesting in those circumstances that a determination that the amended statute applied rather than the original statute applied wouldn't result in legal fees?

Joseph Palmore (31:36):

I don't think so, your honor, but this is fundamentally different and *Vasquez* and the other cases that we cite explained that a choice of law determination has claim preclusive effect. So if you get a choice of law determination that California law applies rather than Texas law, that is a decision on the merits of the Texas law claims. It means you cannot bring that Texas law claim ever again.

Judge Chen (31:59):

What about the fairly common scenario where someone alleges trade secret misappropriation, but they're not exactly sure the locus—the primary locus of that misappropriation. Maybe it happened more in this state or maybe the defendant's shenanigans were really primarily located in a different state. So I'm not really sure, but I'm going to let both, and ultimately I'm going to pursue one over the other. Once after discovery, I understand really where the electric misappropriating acts took place. And then ultimately it turns out, you know, here's a Texas claim, but that's not the right place after discovery. It's really this other state, every single time the defendant is going to be able to ask for TTLA fees because that unilateral withdrawal of the Texas claim was to avoid a choice of law adverse opinion?

Joseph Palmore (32:51):

I don't know why I would say every single time, because it would be an inquiry into what motivated the withdrawal, but Texas has made a decision to award fees on a mandatory basis to I—is it's a loser pay system in both directions. And the Texas Supreme court's decision and APS addresses this issue and says, yes, this might disincentivize parties to withdraw losing claims, but the Texas legislature made the judgment that when legal relationship between the parties has changed, fees should be awarded.

Judge Newman (33:24):

Okay.

Joseph Palmore (33:24):

So if there's no more questions, we'd ask that for affirmance on the main appeal and for a reversal in our cross appeal.

Judge Newman (33:29):

Thank you, Mr. Palmore. Mr. Cunningham?

Michael Cunningham (33:39):

Your honor. Briefly on trade secret 30, the Institute sealing process, Carlton Magoon, was the engineer at Raytheon who was credited with discovering that trade secret and auditing that had Raytheon. In the record app site and 11499, his initial job worksheet at Indigo. The very first task he was asked to do was develop, institute, vacuum processing system for IR detector packages. When he was hired on, that's what he was asked to do. At app site 11512, his first year annual performance review, the very first thing under

his notable accomplishments was one of the key duties when Carlton was hired, was to develop institute vacuum processing for the auto cam package. His design efforts have been directed towards a device that can be mass-produced in a repeatable and reliable process. That is how Indigo obtained improperly Raytheon's trade secret 30. They have not disputed that. Their only evidence to attempt to dispute that is that Mr. Paul Sweigert, years later, performed some testing to tweak the process.

Judge Dyk (34:47):

I thought you said in your opening argument, there wasn't any evidence that the cascading bake was well-known, and your opposing counsel just read the several excerpts from the record that say that?

Michael Cunningham (35:01):

Your honor, the idea of piece-part vacuum baking, the idea of final-vacuum baking, is well known. Vacuum baking is nothing new. As Mr. Canal, their own expert said, the trade secret as practiced by Raytheon and Indigo is not well-known. Mr. Canal also—

Judge Dyk (35:17):

That, that's a different question. You keep changing the definition—

Michael Cunningham (35:21):

Your Honor I—

Judge Dyk (35:21):

The question is, you were arguing in your opening argument that the cascading bake, the very concept of it, was a trade secret, and just read all sorts of testimony from the record that says it's not a trade secret. It was well known. So that's a problem for you.

Michael Cunningham (35:40):

Your honor, I appreciate your position on that. And your comment on that, Mr. Canal testified on cross examination that the concept of sequential piece-part vacuum baking is not well-known. And any way, Your Honor, that goes to whether or not it is a trade secret, and the jury found that it was. The defendants have admitted they practice the exact same vacuum bake that we do. At the app, appendix 9777 and 78, Mr. Farhod Meerhod, one of the engineers for Indigo, he was asked: "Okay. Second fundamental process that Indigo considers fundamental piece-part vacuum bake." "Yes." "At least according to 420, the exhibit, and we've talked about that at length. This is the piece-part, the same piece-part vacuum bake that you learned at Raytheon?" "Correct." Also from the app, 9806 9807, Mr. Canal, testifying again: Question: "Your testimony. I believe was that your understanding was that Raytheon's piece-part vacuum bake process is really just a breakdown to bake out contaminants based on steel, gold, paint, and epoxy limits. Is that accurate?" Answer: "That sounds about right." On page 98 07. I want to go over, I believe it's the 23rd page. This is from lines 3314. It's a section called Fundamental Processes. There. Thank you. And I want to go down the second bullet point, and this is where Indigo describes as fundamental process, a piece-part vacuum bake for the steel limit, gold limit, epoxy and paint limits. Right?" "Yes."

Judge Chen (37:16):

What if we agree, or find that it was reasonable for the jury to conclude that your—the scope of your trade secret is something more specific as every—all the timing and temperature details, sort of that level of a true recipe—then is it likewise reasonable for the jury to have concluded based on the record that there was no misappropriation of that narrow understanding of the trade secret number 14?

Michael Cunningham (37:49):

Respectfully, no, your honor, because that didn't happen. And I'll also want to discuss, you actually

mentioned the charge—

Judge Chen (37:53):

Well are you arguing with the premise of my question or are you arguing with the question?

Michael Cunningham (37:57):

I'm arguing with the question. The premise, if the trade secret had ever been defined that specifically, I might agree with your premise. However, until you note the jury charge, which was a list of 31 trade secrets, which was a chart that was in front of the jury from the opening statement through closing, trade secret 14 was defined as method and use of sequential vacuum bake. That was the definition of the trade secret that was provided to the jury. It never changed. Indigo never objected claiming that it was not specific enough, not during discovery, not during pretrial motion practice, not during the jury charge. Indigo didn't have a problem with trade secret being defined that broadly—the method and use of a sequential vacuum bake. That's how it was defined.

Judge Dyk (38:40):

The problem is you haven't pointed to any evidence that that was a trade secret. There's been plenty of evidence pointed out by the opposing counsel saying that this was well-known, which you've defined as the general trade secret. Aside from that one exchange by one witness who elsewhere made perfectly clear that the general concept of sequential baking is well-known, you have nothing to suggest in this record that the concept—the general concept of sequential baking was not well known.

Michael Cunningham (39:13):

Respectfully, your honor, the jury was charged with the definition of trade secret 14 use—method and the use of a sequential vacuum, and they found that to be a secret. Indigo has not appealed that. They have not raised any error claiming that the trade secret was not sufficient.

Judge Dyk (39:28):

They have, they've argued that the general thing was not a trade secret and that wasn't what the jury found.

Michael Cunningham (39:34):

Your Honor, they have not moved to overturn the jury's verdict with respect to the secret status. The jury found it to be a secret. It has not been—

Judge Chen (39:42):

When you say it though, that's the question. When you say they found it to be a secret, that's what we're trying to figure out. The jury had to figure out what it is, and they very well may have concluded that it is something narrower than you believe it to be.

Michael Cunningham (39:55):

Well, what we have, Your Honor, is the jury charge. That is what we have to work with. The jury charged. The secret was defined as method and use of a central vacuum bake. Indigo did not request a limiting instruction. They did not request any instruction or any kind of comment from the court to further limit or identify the trade secret. That is the definition of the trade secret that the jury found to be a secret. That is the totality of the definition. Indigo never complained that it should be more.

Judge Chen (40:22):

Okay. I see you're out of your time. Do you want—can you speak something about the cross appeal?

Michael Cunningham (40:27):

The cross appeal, Your Honors, Your Honors are exactly correct. The choice of law was never made, as you said. We pled under both laws because we did not know prior to discovery, which locus in which facts would be more, more germane to the, to the trade secret definitions in the and to the misconduct. After the appeal, on such statute of limitations, it was repled. We pled under California law. There was no choice of law. There was no fight as to law. We pled under both. They said they thought it should be California. We agreed. There was no there was no dismissal with prejudice. There was no adverse finding. The statute, the TTLA, and the KATUSA statute on the definition and the recovery of a trade secret case are an off—on all aspects, effectively, identical. There was nothing difficult. Our position didn't change. We did not avoid any kind of a ruling on the merits. We proceeded with a trade secret case. We tried a trade secret case. There was nothing different under KATUSA and under TTLA.

Judge Chen (41:24):

I guess the other side is saying, what you're trying to avoid is TTLA fees.

Michael Cunningham (41:29):

And under—and at trial, they actually charged the jury with the bad faith question. So they would be entitled to fees under the KATUSA standard if the jury found that the litigation would proceed in bad faith. The jury was charged of that. The jury found there was no bad faith. So, we're not trying to avoid anything. The jury was charged with the question of whether the conduct was bad faith on their part, or the lawsuit was brought in, brought in bad faith on our part. The jury found no to both. We weren't avoiding anything. Fees were always in play. The statutes were identical. The case law was identical with respect to the standard for pursuing a trade secret case. We didn't avoid any kind of trial on the merits or any kind of a substantive ruling by simply electing California law as they pressed for.

Judge Newman (42:10):

Okay. Any more questions? Any more questions? Thank you.

Michael Cunningham. (42:16):

Thank you, your honor.

Judge Newman (42:17):

[**inaudible**] submission.